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SUBJECT: MOSCOW'S CRISIS SITUATION DETERIORATES FURTHER

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¶1. (SBU) Summary: In January 2009, Moscow officials claimed that the global economic crisis had not affected the average Muscovite to the same degree as the capital's more affluent residents. Roughly six months later, the situation has deteriorated, but Moscow officials continue to maintain their optimism. Opposition leaders are bracing for the situation to worsen in the fall. End Summary.

¶2. (SBU) In a July 20 press briefing, Marina Ogloblina from the Moscow City government's Department of Economic and Political Development outlined the problems facing Moscow with regard to the financial crisis. She stressed that industrial production stabilized in May and June, and stated that the banking crisis will not affect industry in Moscow. Ogloblina then argued that construction would be the key for Moscow in terms of bolstering employment opportunities, as "every job at a construction site provides seven jobs in other industries." She highlighted that the Mayor's Office has been actively involved in creating solutions, such as when it recently simplified the procedure for preparing investment projects and implemented measures to stimulate industrial production and consumer demand in an effort to mitigate the crisis. Ogloblina stated, "we are generally optimistic," and maintained that officials in Moscow do not fear a second wave of the crisis. However, she revealed that Moscow has temporarily halted long-term planning until it can balance the budget.

Moscow City Budget Woes

¶3. (SBU) The Moscow City Government radically revised the Moscow City budget in 2009. Acting Head of the Moscow City Government's Department for External Economic and International Relations Vadim Danilin told us July 23 that the Moscow Duma cut the 2009 budget by 25 percent in light of the crisis; the reduced 2009 budget is now roughly USD 39 billion. As a means of comparison, the 2006 Moscow City budget was USD 28 billion, the 2007 budget was USD 26 billion, and the 2008 budget peaked at USD 52 billion. According to Danilin, the 2009 budget is allocated as follows:

- half to social programs (families, students, pensions, health, culture, education, and the disabled);
- one quarter to municipal services (water, electricity, heat, trash collection, and road maintenance); and
- the remaining quarter to city investment program (new investments, constructing the "Moscow City" complex, and other projects).

¶4. (SBU) According to Danilin, the 2009 cuts did not have an adverse impact on the social programs, but instead came out of the city's investment program. On June 17 ITAR-TASS reported that Chairman of the City Finance Department Yury Korostelev said the city also reduced spending on municipal

services. According to Korostelev, there was a 41 percent decline in revenues in the first four months of the year, which resulted in the need to revise the budget. He revealed that revising the city budget would likely increase the city deficit threefold. Danilin admitted that due to the economic crisis, this year the Moscow Duma will begin to look at the 2010 budget in November 2009 instead of early in the fall during the typical review period.

Unemployment and Business Difficulties

15. (SBU) The unemployed population in Moscow is gradually growing. According to Ogloblina, official unemployment has increased from 0.35 percent to 0.87 percent (56,700 people), but is still extremely low. She elaborated by saying that some of the unemployment was being addressed by the Moscow Job Bank, which has 100,000 high-paying jobs, although they require special education and training. Ogloblina highlighted that 24,000 Muscovites have recently received job retraining, and people are generally able to find work. It should be noted that she did not mention the Cherkizovsky market closure or job losses in the construction industry.

16. (SBU) Some businesses in Moscow are struggling. On July 27, Sergei Mitrokhin, Chairman of the Yabloko opposition party and Moscow City Duma Deputy, expressed concern that there are fewer jobs in Moscow now than in January and he told us that the main problem is that enterprises are closing. Julia Khomchenko, a journalist at Vremya Novostey, confirmed July 20 that a greater number of small businesses have been closing. In July, Moscow Mayor Yuri Luzhkov

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himself enjoined companies to pay their staff. Mariya-Luiza Tirmaste, a journalist at Kommersant, told us July 28 that some top and mid-level salaries have been cut, but not to a critical level. She maintained that the situation is serious, but not yet unbearable. According to Tirmaste, some opposition groups are telling people that they should brace themselves for the economy to deteriorate further in the fall.

Comment

17. (SBU) While Moscow's economy has contracted, it has not been to the point of creating significant social unrest. Moscow's authorities are trying to use their powers to ensure that the sting of the crisis is not too painful.
RUBIN